

# SPIRENT COMMUNICATIONS PLC 2023 HALF YEAR RESULTS

AUGUST 2023

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# MOMENTUM RETURNING

- Momentum and recovery after very slow Q1
- Customer buying behaviour picking up
  - Maintaining high win rate
- Continuing to diversify customer base
  - Strength in Positioning outside of Telco
  - Entry into Financial Services
- Significant opportunities in H2 with improving outlook into 2024
  - Strategy aligned to address opportunities



# FINANCIAL RESULTS

PAULA BELL

CHIEF FINANCIAL & OPERATIONS OFFICER

# KEY METRICS

**\$239.4m**

Orders

↙ 19%

**\$223.9m**

Revenue

↙ 20%

**\$303.4m**

Orderbook

↗ 7%  
(30 Jun 2022)

↗ 5%  
(31 Dec 2022)

**\$11.6m**

Operating profit<sup>1</sup>

↙ 76%

**\$148.2m**

Closing cash

\$35.3m shares  
purchased

**2.76c**

Dividend

↗ 5%

# FINANCIAL SUMMARY

\$m	H1 2023	H1 2022
Orderbook	303.4	283.6
Order intake	239.4	295.5
Revenue	223.9	280.1
Gross profit	161.0	201.6
Gross margin	72%	72%
Operating costs <sup>1</sup>	(149.4)	(152.6)
Operating profit <sup>1</sup>	11.6	49.0
Profit before tax	4.8	40.3
Effective tax rate <sup>2</sup>	14.7%	14.0%
EPS <sup>1,3</sup> (cents)	2.10	6.97
Cash	148.2	188.8

- Book to bill 107
- Gross margin managed well, holding at 72%
- Orderbook up 7%, Q2 order intake momentum
- Disciplined cost focus and improvement initiatives
- ETR outlook c15%
- Robust cash position
- Dividend up 5%

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.  
 2. Adjusted tax charge as a percentage of adjusted profit before tax.  
 3. Before tax on items in note 1.

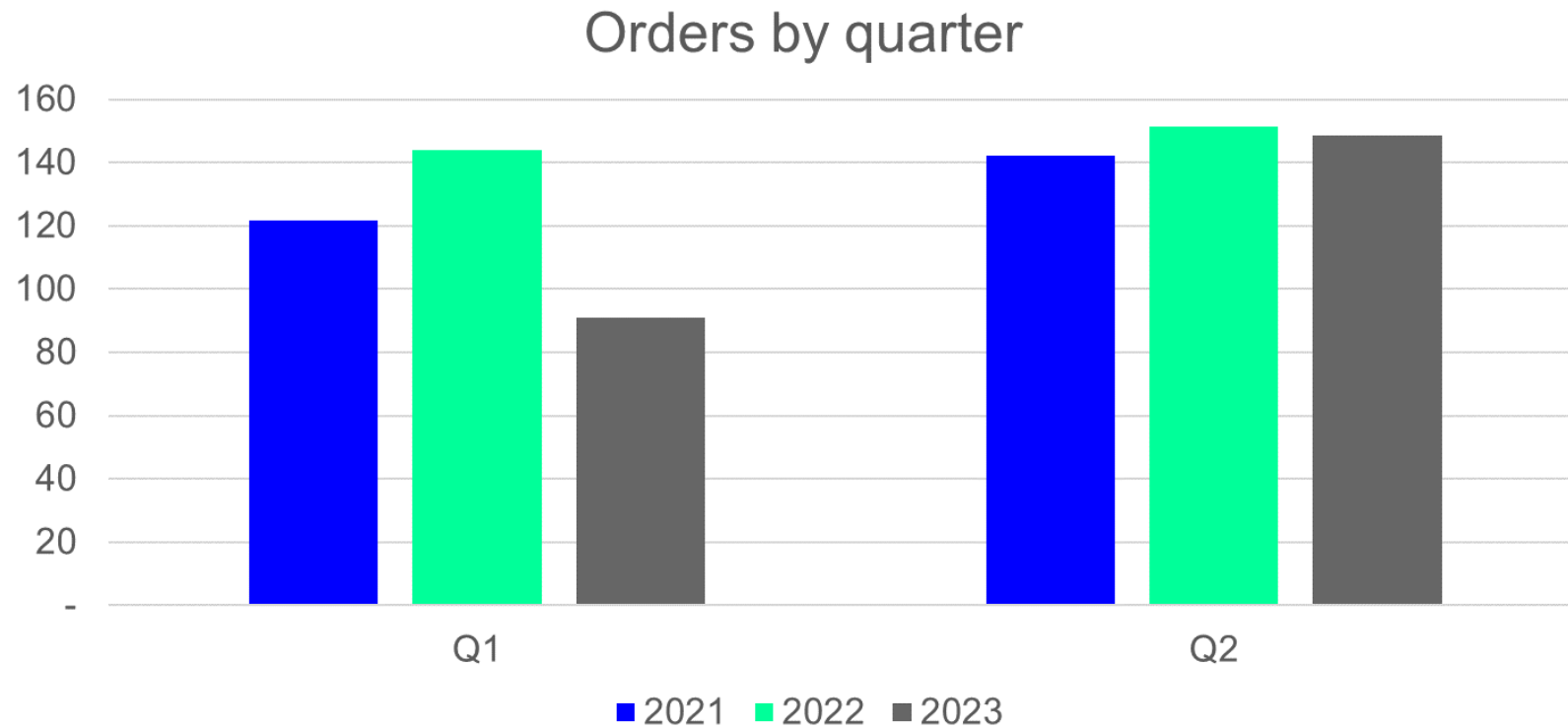
# PORTFOLIO PERFORMANCE

- Q4 22 & Q1 23 order delays impacted H1 trading
- Recent COVID-19 lockdown in China impacted Ethernet sales

\$m	Revenue		Operating (loss)/profit <sup>1</sup>	
	H1 2023	H1 2022	H1 2023	H1 2022
Lifecycle Service Assurance	95.6	125.6	(1.8)	21.3
Networks & Security	128.3	154.5	17.2	32.0
Corporate			(3.8)	(4.3)
<b>Group total</b>	<b>223.9</b>	<b>280.1</b>	<b>11.6</b>	<b>49.0</b>

1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.

# STRONG Q2 RECOVERY - MOMENTUM RETURNING

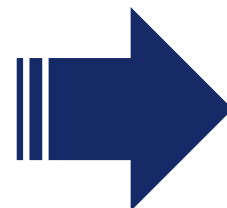
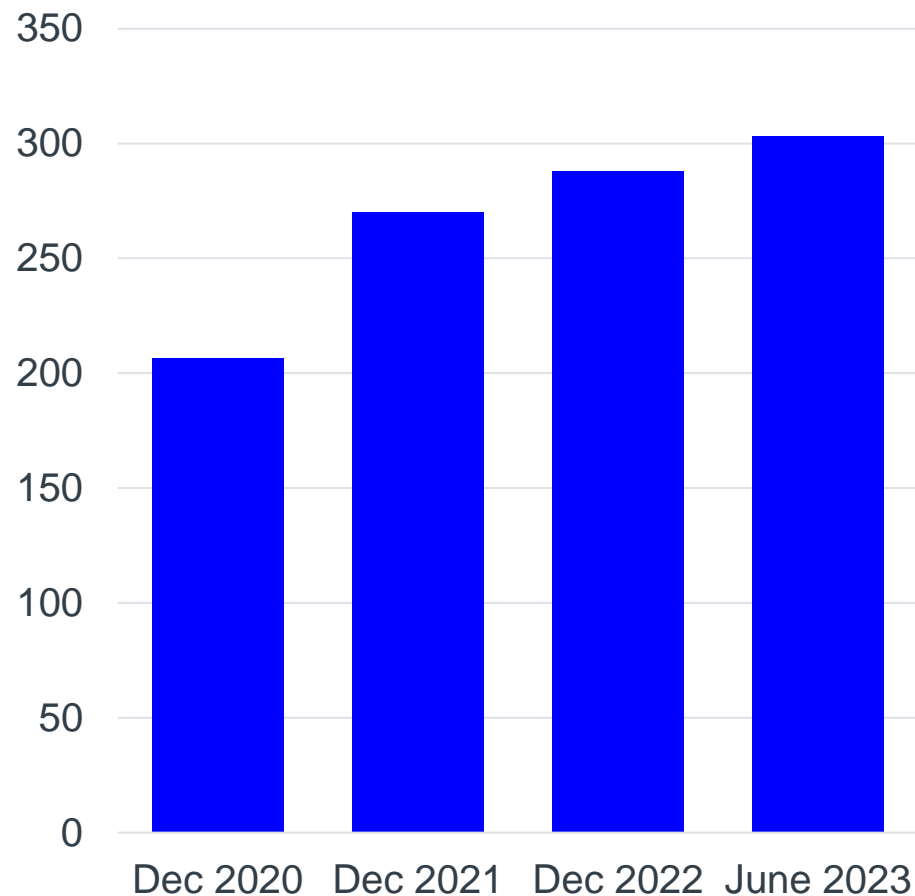


- Encouraging exit rate moving into H2
- Gradual recovery in customer spending
- Improved order winning conversion rate
- Longer term pipeline building

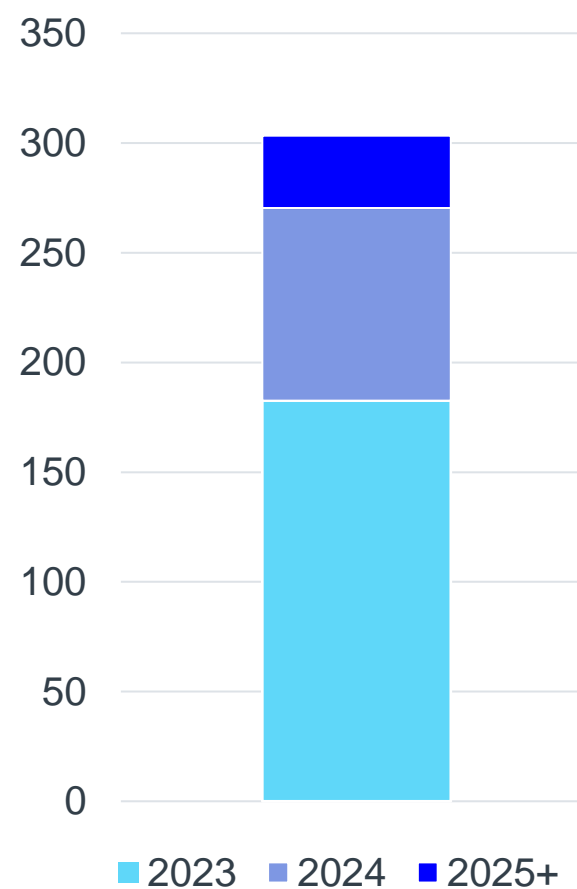


# ROBUST ORDERBOOK DEVELOPMENT

Closing Orderbook \$m



Orderbook Unwind \$m



- 5% growth in orderbook since year end
- 7% growth in orderbook since H1 2022
- Orderbook above \$300m for the first time

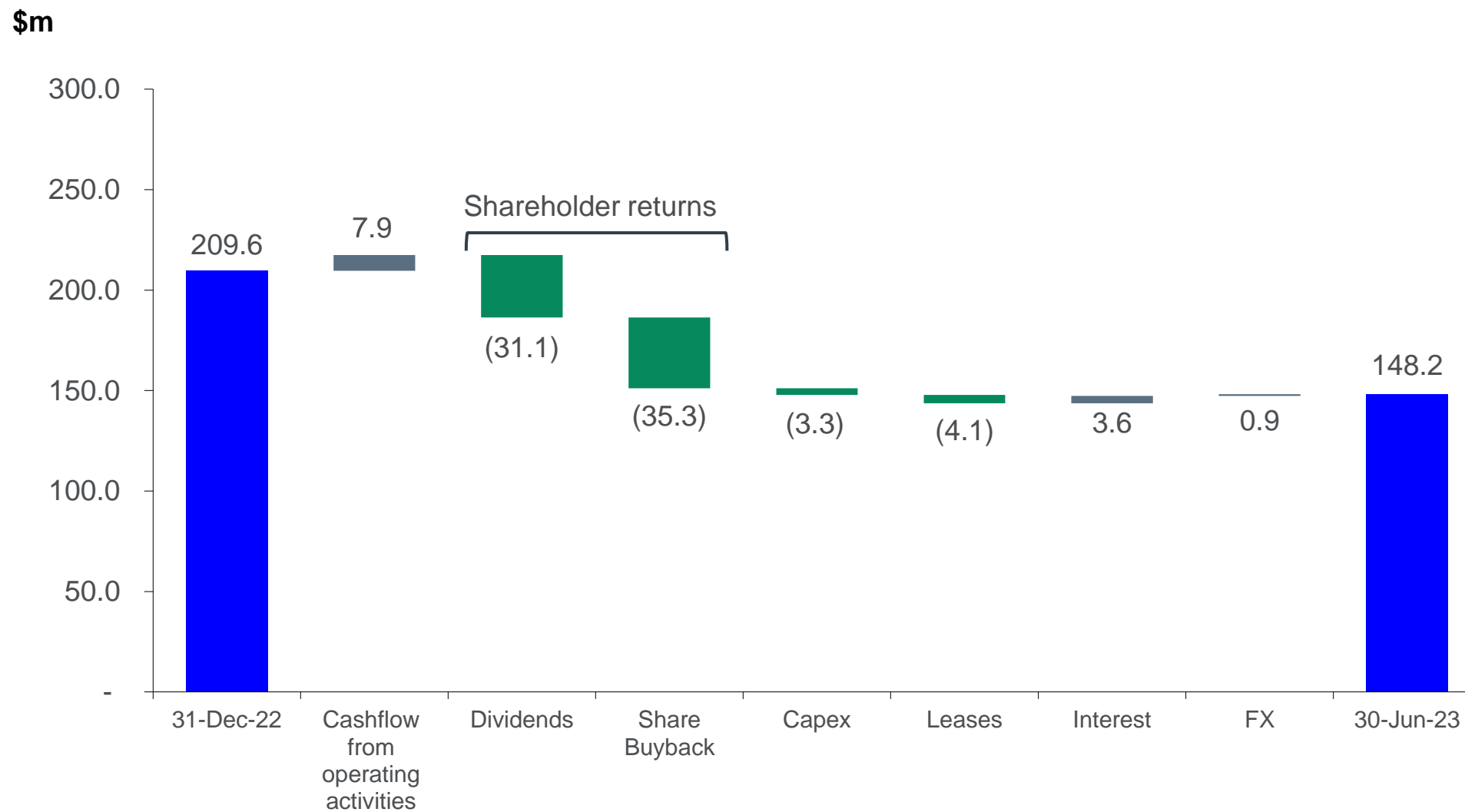
## DISCIPLINED FOCUS ON COSTS

\$m	H1 2023	H1 2022
Product development	53.2	57.2
Selling and marketing	67.7	67.1
Administration	28.2	28.2
<b>Sub total<sup>1</sup></b>	<b>149.1</b>	<b>152.5</b>
FX loss	0.3	0.1
<b>Total operating costs<sup>1</sup></b>	<b>149.4</b>	<b>152.6</b>

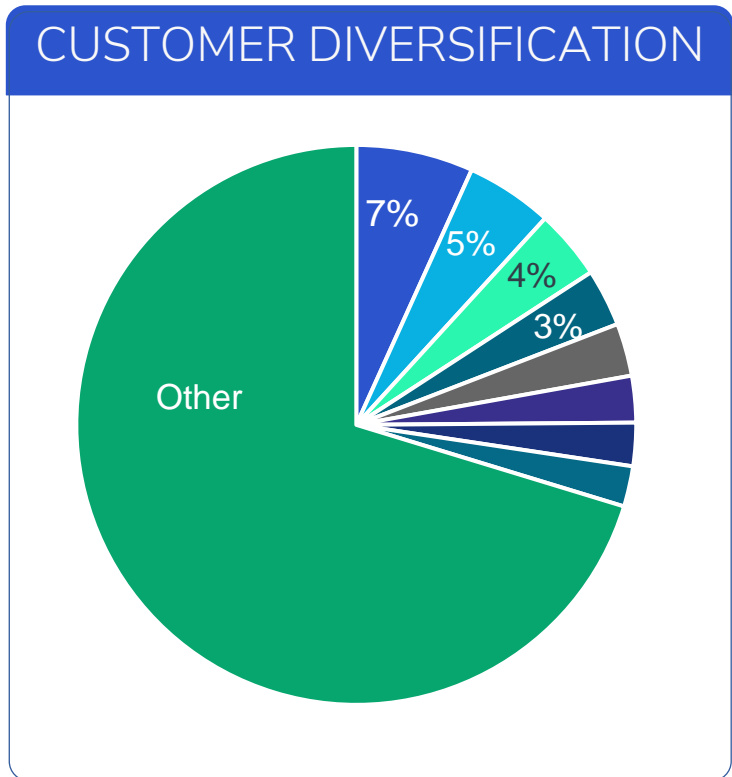
1. Before acquired intangible asset amortisation, share-based payment and other adjusting items.

- Well managed cost base
- R&D costs benefit from transfer of activities to low-cost regions
- Cost inflation offset with proactive action – circa 40 FTE reduction from January

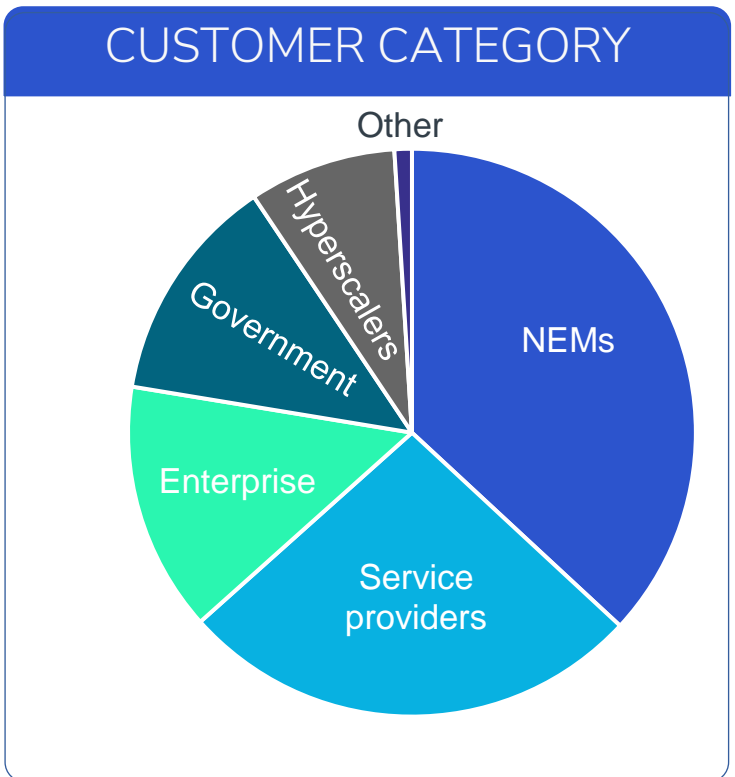
# STRONG BALANCE SHEET AND CASH FOCUS



# DIVERSE PORTFOLIO



- Strong customer diversification
- More multi-year deals
- New customer segments
  - Hyperscalers
  - Financial Services



# RESPONDING PROACTIVELY TO H1 MARKET CHALLENGES

New customer segment focus

- Further diversification into non-Telco areas

XaaS

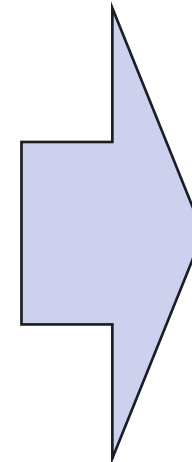
- Allowed us to align with customer caution around capex spend, enhanced ROI proposition

Effective supply chain management

- Robust procurement activities – new system launched
- Costs contained and pricing managed well

Cost control

- R&D efficiency – lower cost regions
- Office accommodation review
- Organisation design considerations

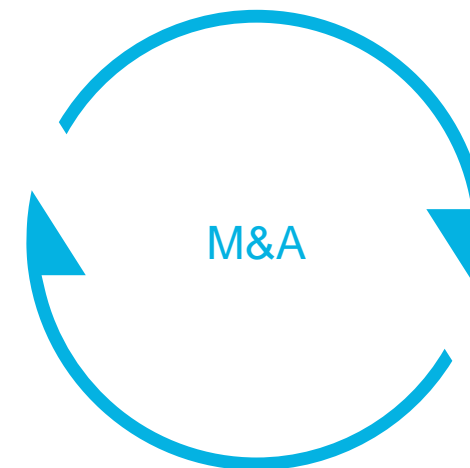
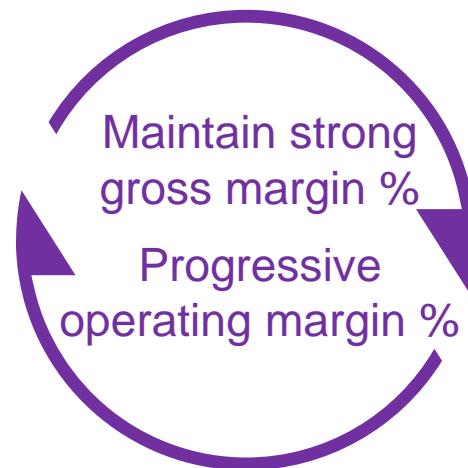


New revenue streams

Gross margin protection

Operating leverage

# MEDIUM TERM TARGETS UNCHANGED AND INTACT



- Recurring revenue
- Software } Neutral impact to gross margin
- Services } Neutral impact to gross margin
- Lab to live
- Technical cyclical mitigation

- Potential for operational leverage and/or increased product development investment

- Accelerate strategy
- Drive faster growth and leverage

## STRONG PLATFORM FOR H2

- Improving order winning traction and growing orderbook
- Continued R&D investment and new product releases
- Improving supply chain lead times; gross margin holding well
- Disciplined and proactive cost management
- \$70m share buyback progressing well
- Returning momentum as we enter H2



# DELIVERING OUR STRATEGY

ERIC UPDYKE

CHIEF EXECUTIVE OFFICER



# OUR MARKET DRIVERS REMAIN STRONG

5G &  
Open RAN



Cloud Growth -  
Expansion of  
Hyperscalers



Focus on  
Efficiency &  
ROI



Emergence of  
Extended  
Reality (AR/VR)



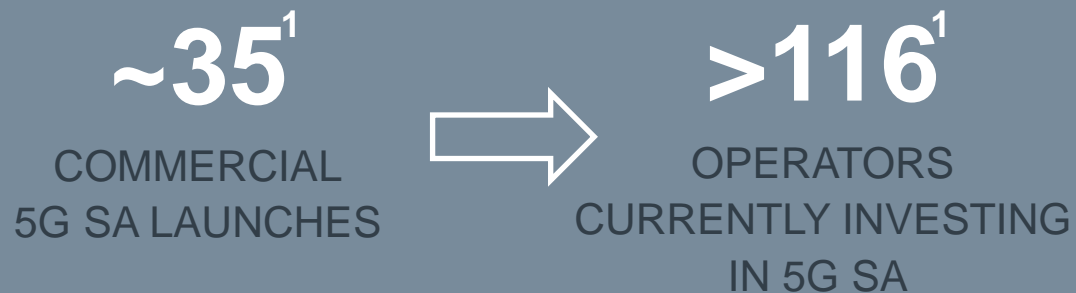
Location  
Awareness as  
a Key Enabler



# 5G - WHY IS THE MOVE TO STANDALONE (SA) SO CRITICAL?

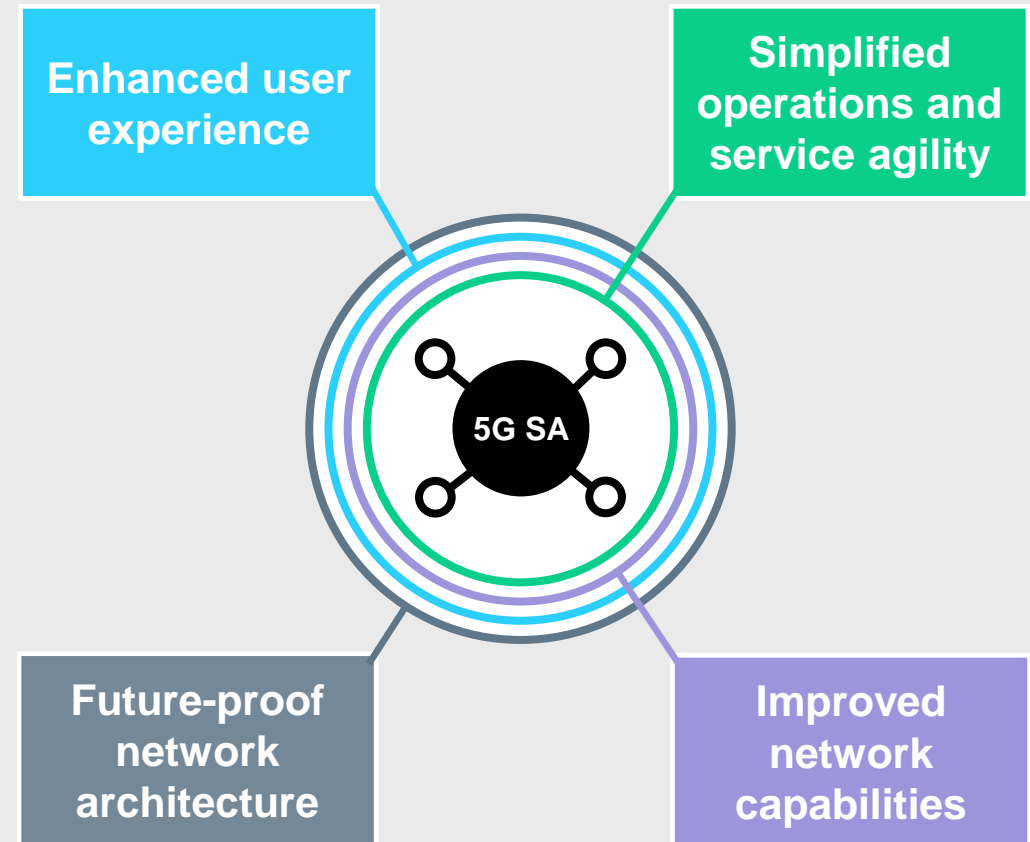
The vast majority of 5G innovation and monetization models require SA (with a 5G core network)

Yet to date only ~3% of operators globally have commercially deployed it:



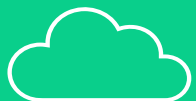
5G SA deployments are expected to accelerate rapidly from 2024

<sup>1</sup>GSA May 2023



# 5G SA DEPLOYMENT – CHALLENGES AND OPPORTUNITIES

## WHY THE DELAY? 5G SA DEPLOYMENT CHALLENGES



Technology complexity, especially around new cloud-native architectures



Lack of internal skillsets within operator teams



Multi-vendor environments & IT-style release cycles require new operational processes



Availability and market penetration of devices supporting 5G SA

5G SA CHALLENGES



SPIRENT OPPORTUNITIES



Build on market leadership in 5G core network test and validation

Address key SA adoption challenges with vendor-neutral solutions

Capitalise on active assurance opportunity created by SA discontinuity

# OUR WINNING STRATEGY



# H1 WIN STORIES

<p><b>NTT DoCoMo</b></p>	<p><b>Tier 1 North American Network Operator</b></p>	<p><b>Low-Earth Orbit (LEO) Satellites</b></p>	<p><b>Leading Global Security Solution Vendor</b></p>
<p>Japan's largest operator selects Spirent for O-RAN ecosystem testing</p>	<p>New logo win for our 5G network benchmarking services offering</p>	<p>Strategic wins and new partnerships addressing next-generation PNT opportunities</p>	<p>Securing major win for our new generation of security test solutions</p>

# NEW OPPORTUNITY - FINANCIAL SERVICES VERTICAL

## LARGE RETAIL FINANCIAL INSTITUTION - TYPICAL CHALLENGES

### Compliance / certification

- Lack of automated, end-to-end test capability
- Need to reduce incidents / outages and time to resolution

### Siloed practices

- Labs siloed by geography / technology / vendor
- Fragmented, manual, inefficient testing

**Imperative to dramatically improve efficiency and reduce OpEx!**

## SPIRENT OPPORTUNITY



**Solution:** automated lab management and continuous testing

### Anticipated outcomes:

- ~90x efficiency gain - weeks to hours
- Multi-million-dollar annual savings
- Reduction in outages through improved test
- 24x7x365 global lab access

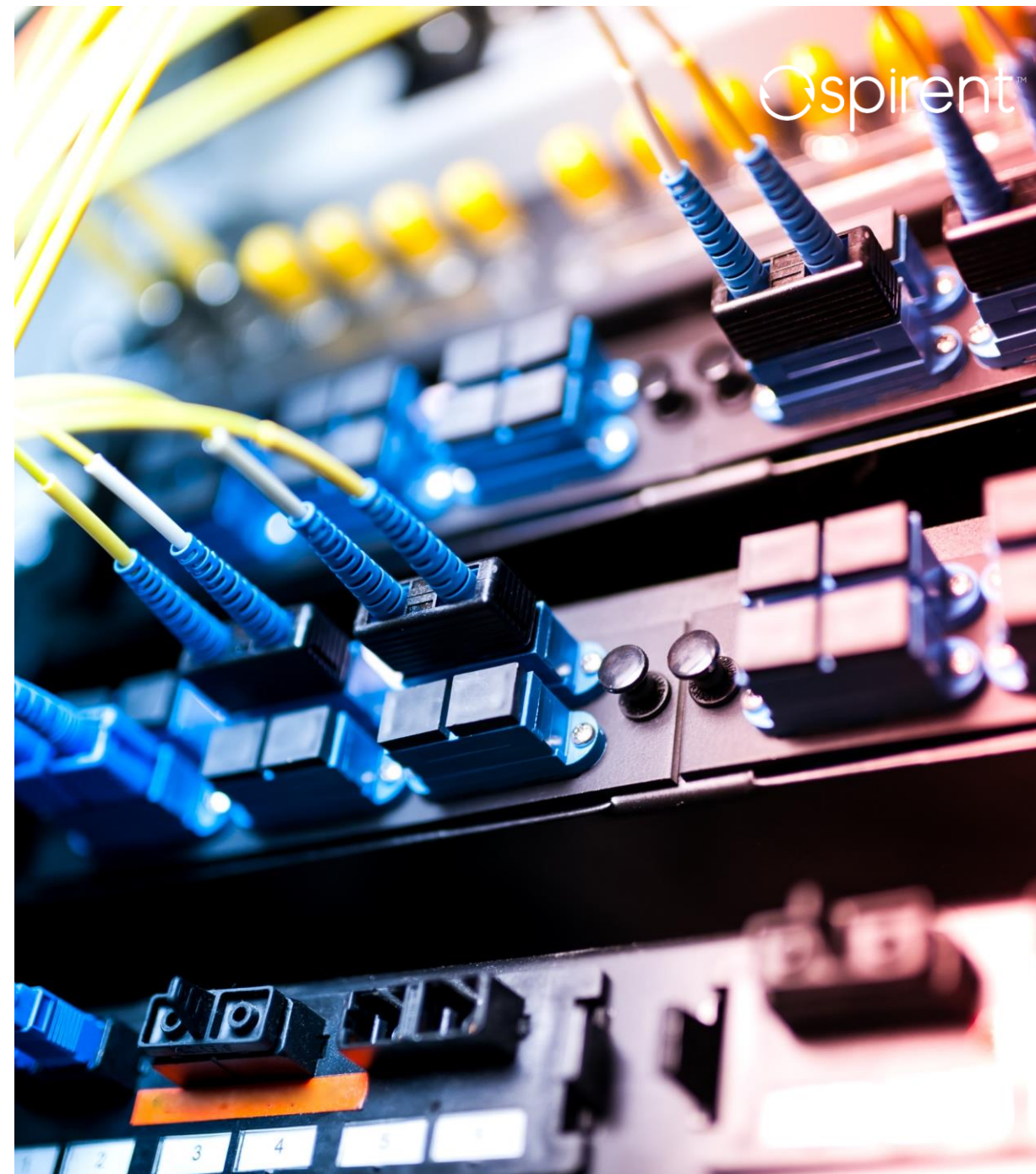
# LIFECYCLE SERVICE ASSURANCE HIGHLIGHTS

- Encouraging O-RAN wins with market-leading end-to-end solution
- Continued live network success with VisionWorks in Tier 1 operators
- Lab and test automation and “as-a-Service” offerings providing efficiencies for customers
- Expansion into financial services vertical
- Maintaining Wi-Fi test market leadership
  - Investing in Wi-Fi 7



# NETWORKS & SECURITY HIGHLIGHTS

- Robust performance from Positioning business
  - Strong market drivers and diversified customers
- Maintaining leadership in 800G high-speed Ethernet with multiple strategic wins
  - Release of powerful new 400G appliance
- Slow start in China after pandemic disruption
  - Anticipate H2 recovery in business from NEMs
- Security Solutions momentum with new testing platform





# ROBUST OPERATING MODEL

## RESILIENCE

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- Returning momentum despite macro factors
- Diversifying into new customer sectors
- Address broader customer needs with services and solutions
- Diligently managing supply chain
- Disciplined cost management

## SUSTAINABILITY

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- Achieved Carbon Neutral Certification
- Products helping customers achieve their sustainability goals
- Investing in diversity and inclusion



# SUMMARY – H2 MOMENTUM RETURNING

Typical HY business momentum...

VisionWorks engagements with US Tier 1s	800G chipset and hyperscaler wins
Services business bringing multiple 5G deals	Strong drivers in Positioning business
Lab and Test-as-a-service progress	Tier 1 deals for new security testing platform

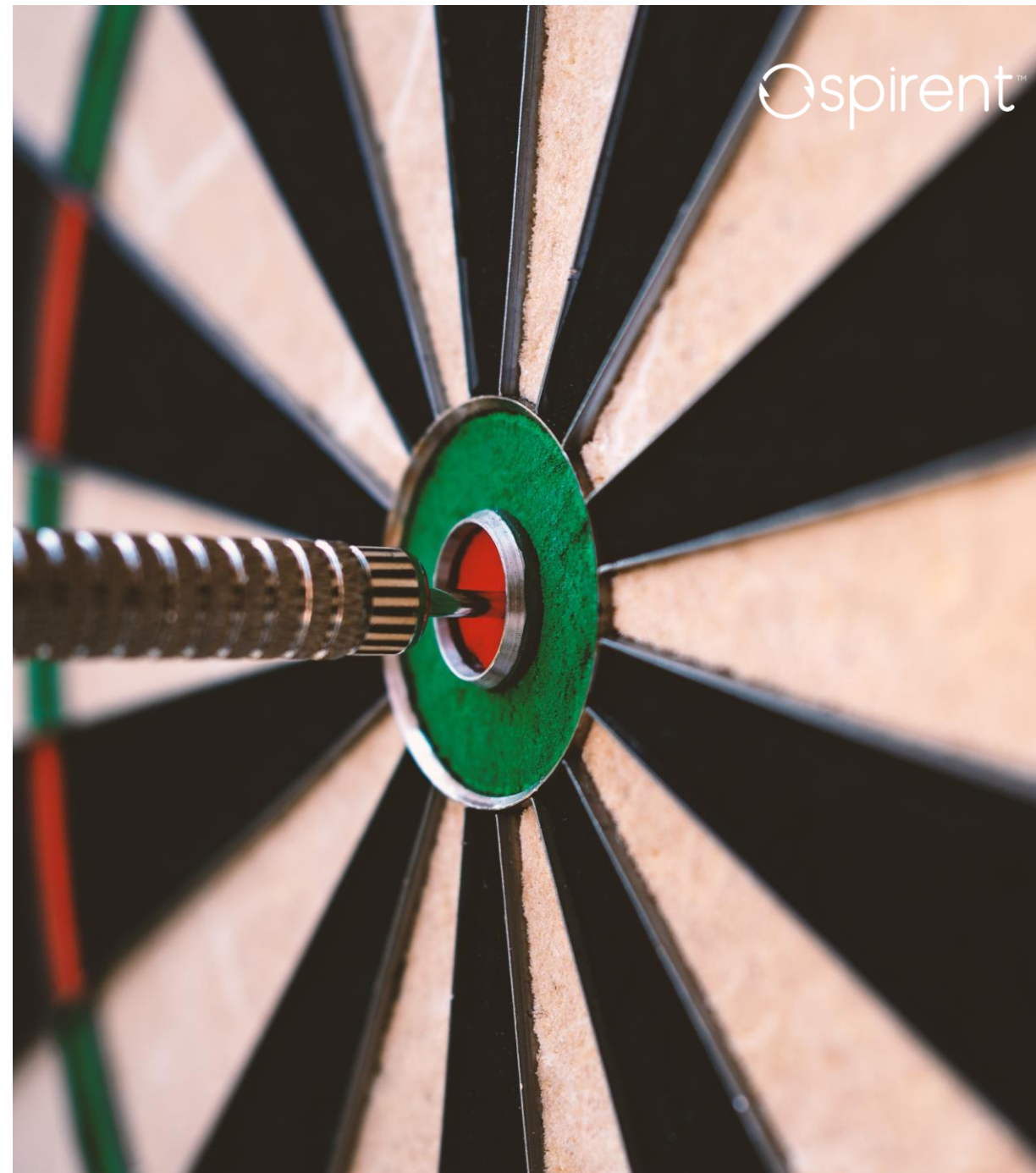
...complemented by new or returning growth opportunities for H2

\$15M LSA opportunity in Financial Services	Wins for new O-RAN product suite
Customers discussing big deals again	China NEM business returning post lockdown

# OUTLOOK

## Long-term guidance reiterated

- Managing macroeconomic challenges
- Focused investment for growth
  - Disciplined cost management
  - Investing in the right R&D
  - Very attractive long-term market trends
- Expectations for full year remain unchanged
  - Heavier than usual weighting to H2
  - Orderbook growth, returning momentum



# QUESTIONS

# APPENDIX

# INCOME STATEMENT

\$m	H1 2023	H1 2022
Revenue	223.9	280.1
Gross profit	161.0	201.6
Operating costs	(149.4)	(152.6)
<b>Adjusted operating profit</b>	<b>11.6</b>	<b>49.0</b>
Adjusting items:		
Acquired intangible asset amortisation	(2.4)	(2.4)
Share-based payment	(3.0)	(4.1)
Other adjusting items	(4.6)	(2.4)
<b>Operating profit</b>	<b>1.6</b>	<b>40.1</b>
Net finance income	3.2	0.2
<b>Profit before tax</b>	<b>4.8</b>	<b>40.3</b>
Tax	0.4	(5.7)
<b>Profit after tax</b>	<b>5.2</b>	<b>34.6</b>
Adjusted basic earnings per share (cents)	2.10	6.97

# LIFECYCLE SERVICE ASSURANCE

\$m	H1 2023	H1 2022
Revenue	95.6	125.6
Gross profit	69.5	92.9
Gross margin	72.7%	74.0%
Product development	(27.2)	(27.9)
Other expenses <sup>1</sup>	(44.1)	(43.7)
<b>Operating (loss)/profit<sup>1</sup></b>	<b>(1.8)</b>	<b>21.3</b>

1. Before other adjusting items of \$1.6 million charged in H1 2023 (H1 2022: \$0.1 million).

- Q4 2022 & Q1 2023 customer spend delays impacted trading in H1
- Negative operating leverage impacted operating profit as a result

# NETWORKS & SECURITY

\$m	H1 2023	H1 2022
Revenue	128.3	154.5
Gross profit	91.5	108.7
Gross margin	71.3%	70.4%
Product development	(26.0)	(29.3)
Other expenses <sup>1</sup>	(48.3)	(47.4)
<b>Operating profit<sup>1</sup></b>	<b>17.2</b>	<b>32.0</b>

1. Before other adjusting items of \$3.1 million charged in H1 2023 (H1 2022: \$0.6 million).

- Supply chain lead times and cost increases are easing
- Robust gross margin maintained
- Recent COVID-19 lockdowns in China impacted H1 high-speed Ethernet sales



## OTHER ADJUSTING ITEMS

\$m	H1 2023	H1 2022
Direct acquisition transaction costs	-	(0.6)
Acquisition related performance payments	-	(1.1)
Acquisition integration costs	-	(0.1)
Strategic review (including R&D transition plan)	(4.6)	(0.6)
<b>Total charge</b>	<b>(4.6)</b>	<b>(2.4)</b>

- Very successful implementation of moving high-cost R&D activities to Romania, India and China
- Circa 40 FTE reduction at the beginning of the year

## FOREIGN CURRENCY

- Our significant foreign exchange (FX) exposure relates to GBP
- Vast majority of revenue is transacted in USD so the impact of FX on revenue is minimal
- Average USD:GBP exchange rate for H1 2023 of 1.23 compared to 1.30 in H1 2022, the closing rate at 30 June 2023 was 1.26 vs 1.21 at 30 June 2022.
- FX loss of \$0.3m charged to the income statement in H1 2023 (H1 2022: \$0.1m loss charged) in relation to:
  - Transaction exposure in UK operations from US Dollar sales; and
  - Retranslation of cash balances held in non-domicile currency

# OUR FOCUS ON DIVERSIFICATION

Strategic Market Focus	Geographic Market Focus
<p>Live Network Assurance</p> <ul style="list-style-type: none"> <li>Hyperscalers</li> <li>MSOs</li> <li>Chipset</li> <li>Government</li> </ul>	<p>EMEA</p> <p>East Asia</p> <p>South Asia</p>
Partnership Expansion Focus	Inorganic Growth Focus
<p>Expand successful partner ecosystem, targeting faster-growing segments</p> <p>Expand key global system integrator (GSI) partnerships</p>	<p>Pursue targeted M&amp;A opportunities in core and adjacent markets</p>

# SPIRENT'S UNIQUE STRENGTHS

<p><b>Market-Leading Capabilities</b></p>	<p><b>Deep, Enduring Customer Relationships</b></p>	<p><b>Accelerating End-Market Growth</b></p>
<ul style="list-style-type: none"> <li>• Global leader in Test and Assurance</li> <li>• More than 1,200 customers served each year across more than 50 countries</li> </ul>	<ul style="list-style-type: none"> <li>• Trusted partner to the world's most innovative telecommunications and networking companies</li> <li>• Embedded in the supply chains of our customers</li> <li>• Addressing our customers' largest, most complex challenges with solutions and services</li> </ul>	<ul style="list-style-type: none"> <li>• Strong secular growth trends in our chosen sectors</li> <li>• 5G represents a very large and enduring opportunity</li> <li>• Exciting emerging high-growth technologies from the metaverse to IoT, device proliferation and Cloud</li> </ul>
<p><b>Exposed to Non-Discretionary, Committed Spend</b></p>	<p><b>A High-Quality, Resilient Growth Business with Defensive Characteristics</b></p>	<p><b>Well Placed to Seize Attractive Opportunities</b></p>
<ul style="list-style-type: none"> <li>• We operate in markets underpinned by non-discretionary and committed spending decisions by companies who deliver critical connectivity solutions for their own customers</li> </ul>	<ul style="list-style-type: none"> <li>• Proven track record of sustainable value creation</li> <li>• Reliable and highly visible recurring revenue growth</li> <li>• Strong cash generation</li> <li>• High returns on capital</li> </ul>	<ul style="list-style-type: none"> <li>• Focused on growing the business organically and through highly-selective, earnings-accretive acquisitions</li> </ul>



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